

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

AUDIT REPORT
OF
DECATUR COUNTY COMMUNITY SCHOOLS
DECATUR COUNTY, INDIANA
July 1, 2004 to June 30, 2006



FILED
03/07/2007

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials.....	2
Independent Auditor's Report on Financial Statements and Supplementary Schedule of Expenditures of Federal Awards	3-4
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards.....	5
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Cash and Investments	6-7
Statement of Cash Activities	8-9
Fund Financial Statements:	
Governmental Funds:	
Statement of Receipts, Disbursements, and Cash and Investment Balances – Governmental Funds.....	10-11
Reconciliation of the Statement of Receipts, Disbursements, and Cash and Investment Balances of Governmental Funds to the Statement of Cash Activities.....	10-11
Proprietary Funds:	
Statement of Receipts, Disbursements, and Changes in Cash and Investments – Proprietary Funds.....	12-13
Fiduciary Funds:	
Statement of Cash and Investments.....	14-15
Statement of Receipts, Disbursements, and Changes in Cash and Investments – Fiduciary Funds.....	16-17
Notes to Financial Statements	18-27
Required Supplementary Information:	
Schedule of Funding Progress	28
Supplementary Information:	
Schedule of Capital Assets	29
Schedule of Long-Term Debt.....	30
Audit Results and Comments:	
Overdrawn Cash Balances	31
Honors Diplomas – Incorrect Reporting to the State	31
Appropriations.....	31
Deposits.....	31
Supplemental Audit of Federal Awards:	
Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133	34-35
Schedule of Expenditures of Federal Awards.....	36
Notes to Schedule of Expenditures of Federal Awards	37
Schedule of Findings and Questioned Costs.....	38
Auditee Prepared Schedules:	
Summary Schedule of Prior Audit Findings.....	39
Exit Conference.....	40
Official Response	41-42

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Louise S. Smith	01-01-04 to 12-30-07
Superintendent of Schools	Robert Cupp	07-01-04 to 06-30-07
President of the School Board	Tim Stone Mark A. Koors	01-01-04 to 12-31-04 01-01-05 to 12-31-07



STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TO: THE OFFICIALS OF THE DECATUR COUNTY COMMUNITY
SCHOOLS, DECATUR COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Decatur County Community Schools (School Corporation), as of and for the years ended June 30, 2005 and 2006, which collectively comprise the School Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note I, the School Corporation prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the governmental activities, each major fund, and the aggregate remaining fund information of the School Corporation as of June 30, 2005 and 2006, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note I.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the School Corporation taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

The Schedule of Funding Progress as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The School Corporation has not presented Management's Discussion and Analysis or Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School Corporation's basic financial statements. The Schedule of Capital Assets, and Schedule of Long-Term Debt are presented for additional analysis and are not a required part of the basic financial statements. The Schedule of Capital Assets and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

January 23, 2007



STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE DECATUR COUNTY COMMUNITY
SCHOOLS, DECATUR COUNTY, INDIANA

We have audited the financial statements of the Decatur County Community Schools (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated January 23, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the School Corporation's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

January 23, 2007

DECATUR COUNTY COMMUNITY SCHOOLS
STATEMENT OF CASH AND INVESTMENTS
June 30, 2005

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 3,570,161
Restricted assets:	
Cash and investments	<u>409,378</u>
Total assets	<u>\$ 3,979,539</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 409,378
Unrestricted	<u>3,570,161</u>
Total net assets	<u>\$ 3,979,539</u>

The accompanying notes are an integral part of the financial statements.

DECATUR COUNTY COMMUNITY SCHOOLS
STATEMENT OF CASH AND INVESTMENTS
June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 3,997,698
Restricted assets:	
Cash and investments	<u>604,653</u>
Total assets	<u>\$ 4,602,351</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 604,653
Unrestricted	<u>3,997,698</u>
Total net assets	<u>\$ 4,602,351</u>

The accompanying notes are an integral part of the financial statements.

DECATUR COUNTY COMMUNITY SCHOOLS
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2005

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 7,423,482	\$ -	\$ 114,798	\$ (7,308,684)
Support services	8,916,028	632,405	261,921	(8,021,702)
Community services	127,834	-	-	(127,834)
Nonprogrammed charges	2,317,818	-	-	(2,317,818)
Debt service	4,197,531	-	-	(4,197,531)
Total governmental activities	<u>\$ 22,982,693</u>	<u>\$ 632,405</u>	<u>\$ 376,719</u>	<u>(21,973,569)</u>
General receipts:				
Property taxes				8,977,862
Other local sources				1,937,217
State aid				8,108,017
Grants and contributions not restricted				456,595
Bonds and loans				348,970
Sale of property, adjustments, and refunds				55,805
Investment earnings				65,866
Transfers:				
Intergovernmental				<u>2,162,019</u>
Total general receipts and transfers				<u>22,112,351</u>
Change in cash and investments				138,782
Net assets - beginning				<u>3,840,757</u>
Net assets - ending				<u>\$ 3,979,539</u>

The accompanying notes are an integral part of the financial statements.

DECATUR COUNTY COMMUNITY SCHOOLS
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2006

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 7,337,186	\$ -	\$ 102,664	\$ (7,234,522)
Support services	9,086,231	643,381	305,990	(8,136,860)
Community services	121,885	-	-	(121,885)
Nonprogrammed charges	2,067,558	-	-	(2,067,558)
Debt service	930,216	-	-	(930,216)
Total governmental activities	<u>\$ 19,543,076</u>	<u>\$ 643,381</u>	<u>\$ 408,654</u>	<u>(18,491,041)</u>
General receipts:				
Property taxes				6,918,126
Other local sources				1,512,913
State aid				8,291,293
Grants and contributions not restricted				403,805
Bonds and loans				1,500
Sale of property, adjustments, and refunds				42,794
Investment earnings				88,513
Transfers:				
Intergovernmental				<u>1,854,909</u>
Total general receipts and transfers				<u>19,113,853</u>
Change in cash and investments				622,812
Net assets - beginning				<u>3,979,539</u>
Net assets - ending				<u>\$ 4,602,351</u>

The accompanying notes are an integral part of the financial statements.

DECATUR COUNTY COMMUNITY SCHOOLS
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2005

	General	Transportation Operating	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:							
Local sources	\$ 6,131,540	\$ 1,235,220	\$ 1,305,176	\$ 1,945,573	\$ 213,200	\$ 781,852	\$ 11,612,561
Intermediate sources	-	-	-	-	-	788	788
State sources	8,208,691	-	-	-	-	91,324	8,300,015
Federal sources	-	-	-	-	-	641,317	641,317
Bonds and loans	-	300,000	-	48,970	-	-	348,970
Sale of property, adjustments and refunds	20,139	2,025	-	32,589	-	1,052	55,805
Intergovernmental transfers	736,358	-	-	1,236,358	-	172,303	2,145,019
Total receipts	<u>15,096,728</u>	<u>1,537,245</u>	<u>1,305,176</u>	<u>3,263,490</u>	<u>213,200</u>	<u>1,688,636</u>	<u>23,104,475</u>
Disbursements:							
Current:							
Instruction	7,004,429	-	-	-	-	419,053	7,423,482
Support services	5,385,293	1,016,712	-	1,353,167	110,000	1,050,856	8,916,028
Community services	121,972	-	-	-	-	5,862	127,834
Nonprogrammed charges	1,477,903	14,661	22,766	758,831	1,976	41,681	2,317,818
Debt services	2,140,000	585,000	1,274,182	-	76,000	122,349	4,197,531
Total disbursements	<u>16,129,597</u>	<u>1,616,373</u>	<u>1,296,948</u>	<u>2,111,998</u>	<u>187,976</u>	<u>1,639,801</u>	<u>22,982,693</u>
Excess (deficiency) of total receipts over (under) total disbursements	(1,032,869)	(79,128)	8,228	1,151,492	25,224	48,835	121,782
Cash and investments - beginning	<u>2,116,541</u>	<u>188,482</u>	<u>401,150</u>	<u>633,868</u>	<u>81,728</u>	<u>418,988</u>	<u>3,840,757</u>
Cash and investments - ending	<u>\$ 1,083,672</u>	<u>\$ 109,354</u>	<u>\$ 409,378</u>	<u>\$ 1,785,360</u>	<u>\$ 106,952</u>	<u>\$ 467,823</u>	<u>\$ 3,962,539</u>

The accompanying notes are an integral part of the financial statements.

RECONCILIATION OF THE STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF CASH ACTIVITIES

Net change in fund balances - total governmental funds	\$ 121,782
Amounts reported for governmental activities in the statement of cash activities are different because:	
Internal service funds are not reported as a part of governmental funds.	<u>17,000</u>
Change in cash and investments of governmental activities.	<u>\$ 138,782</u>

DECATUR COUNTY COMMUNITY SCHOOLS
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2006

	General	Transportation Operating	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:							
Local sources	\$ 4,469,859	\$ 974,776	\$ 899,233	\$ 1,513,594	\$ 107,718	\$ 1,194,418	\$ 9,159,598
Intermediate sources	2,697	-	-	-	-	638	3,335
State sources	8,379,756	-	-	-	-	110,308	8,490,064
Federal sources	-	-	-	-	-	613,688	613,688
Bonds and loans	-	-	-	-	-	1,500	1,500
Sale of property, adjustments and refunds	42,181	-	-	-	-	613	42,794
Intergovernmental transfers	860,786	87,000	6,425	736,358	-	164,340	1,854,909
Total receipts	<u>13,755,279</u>	<u>1,061,776</u>	<u>905,658</u>	<u>2,249,952</u>	<u>107,718</u>	<u>2,085,505</u>	<u>20,165,888</u>
Disbursements:							
Current:							
Instruction	6,700,266	-	-	-	-	636,920	7,337,186
Support services	5,395,705	1,049,646	-	1,385,620	135,964	1,119,296	9,086,231
Community services	120,722	-	-	-	-	1,163	121,885
Nonprogrammed charges	1,026,724	17,215	15,653	849,267	2,651	156,048	2,067,558
Debt services	-	-	808,210	-	-	122,006	930,216
Total disbursements	<u>13,243,417</u>	<u>1,066,861</u>	<u>823,863</u>	<u>2,234,887</u>	<u>138,615</u>	<u>2,035,433</u>	<u>19,543,076</u>
Excess (deficiency) of total receipts over (under) total disbursements	511,862	(5,085)	81,795	15,065	(30,897)	50,072	622,812
Cash and investments - beginning	<u>1,083,672</u>	<u>109,354</u>	<u>409,378</u>	<u>1,785,360</u>	<u>106,952</u>	<u>467,823</u>	<u>3,962,539</u>
Cash and investments - ending	<u>\$ 1,595,534</u>	<u>\$ 104,269</u>	<u>\$ 491,173</u>	<u>\$ 1,800,425</u>	<u>\$ 76,055</u>	<u>\$ 517,895</u>	<u>\$ 4,585,351</u>

The accompanying notes are an integral part of the financial statements.

RECONCILIATION OF THE STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF CASH ACTIVITIES

Net change in fund balances - total governmental funds	\$ 622,812
Amounts reported for governmental activities in the statement of cash activities are different because:	
Internal service funds are not reported as a part of governmental funds.	-
Change in cash and investments of governmental activities.	<u>\$ 622,812</u>

DECATUR COUNTY COMMUNITY SCHOOLS
 STATEMENT OF RECEIPTS, DISBURSEMENTS,
 AND CHANGES IN CASH AND INVESTMENTS
 PROPRIETARY FUNDS
 For The Year Ended June 30, 2005

	Internal Service Fund
Receipts:	
Transfers	<u>\$ 17,000</u>
Changes in cash and investments	17,000
Cash and investments - beginning	<u>-</u>
Cash and investments - ending	<u><u>\$ 17,000</u></u>

The accompanying notes are an integral part of the financial statements.

DECATUR COUNTY COMMUNITY SCHOOLS
 STATEMENT OF RECEIPTS, DISBURSEMENTS,
 AND CHANGES IN CASH AND INVESTMENTS
 PROPRIETARY FUNDS
 For The Year Ended June 30, 2006

	Internal Service Fund
	<hr/>
Changes in cash and investments	\$ -
Cash and investments - beginning	<hr/> 17,000
Cash and investments - ending	<hr/> <u>\$ 17,000</u>

The accompanying notes are an integral part of the financial statements.

DECATUR COUNTY COMMUNITY SCHOOLS
STATEMENT OF CASH AND INVESTMENTS
FIDUCIARY FUNDS
June 30, 2005

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>
Cash and investments	\$ 121,438	\$ 65,635
	<u> </u>	<u> </u>
<u>Net Assets</u>		
Held in trust for employee benefits and other purposes	\$ 121,438	\$ 65,635
	<u> </u>	<u> </u>

The accompanying notes are an integral part of the financial statements.

DECATUR COUNTY COMMUNITY SCHOOLS
STATEMENT OF CASH AND INVESTMENTS
FIDUCIARY FUNDS
June 30, 2006

<u>Assets</u>	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>
Cash and investments	\$ 22,702	\$ 64,965
<u>Net Assets</u>		
Held in trust for employee benefits and other purposes	\$ 22,702	\$ 64,965

The accompanying notes are an integral part of the financial statements.

DECATUR COUNTY COMMUNITY SCHOOLS
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH AND INVESTMENTS
FIDUCIARY FUNDS
For The Year Ended June 30, 2005

	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Funds</u>
Additions:		
Local sources	\$ -	\$ 3,606
Bonds and loans	<u>2,898,840</u>	<u>-</u>
Total additions	<u>2,898,840</u>	<u>3,606</u>
Deductions:		
Support services	2,777,402	2,075
Nonprogrammed charges	<u>-</u>	<u>1,875</u>
Total deductions	<u>2,777,402</u>	<u>3,950</u>
Excess (deficiency) of total additions over (under) total deductions	121,438	(344)
Cash and investments - beginning	<u>-</u>	<u>65,979</u>
Cash and investments - ending	<u><u>\$ 121,438</u></u>	<u><u>\$ 65,635</u></u>

The accompanying notes are an integral part of the financial statements.

DECATUR COUNTY COMMUNITY SCHOOLS
 STATEMENT OF RECEIPTS, DISBURSEMENTS,
 AND CHANGES IN CASH AND INVESTMENTS
 FIDUCIARY FUNDS
 For The Year Ended June 30, 2006

	Pension Trust Funds	Private-Purpose Trust Funds
Additions:		
Local sources	\$ -	\$ 1,213
Deductions:		
Support services	98,736	-
Nonprogrammed charges	-	1,883
Total deductions	98,736	1,883
Deficiency of total additions under total deductions	(98,736)	(670)
Cash and investments - beginning	121,438	65,635
Cash and investments - ending	\$ 22,702	\$ 64,965

The accompanying notes are an integral part of the financial statements.

DECATUR COUNTY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

School Corporation, as used herein, shall include, but is not limited to, school townships, school towns, school cities, consolidated school corporations, joint schools, metropolitan school districts, township school districts, county schools, united schools, school districts, cooperatives, educational service centers, community schools, community school corporations, and charter schools.

The School Corporation was established under the laws of the State of Indiana. The School Corporation operates under a Board of School Trustees form of government and provides educational services.

The School Corporation's financial reporting entity is composed of the following:

Primary Government: Decatur County Community Schools

In determining the financial reporting entity, the School Corporation complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

Jointly Governed Organizations

The School Corporation, in conjunction with Bartholomew County School Corporation, Brown County School Corporation, Greensburg Community School Corporation, Seymour Community Schools, and Crothersville Community Schools has created the Bartholomew Special Services Cooperative. The Co-op was created to provide services to special education students. Complete financial statements for the Bartholomew Special Services Cooperative can be obtained from Bartholomew County School Corporation at 703 Washington Street, Columbus, IN, 47201.

The School Corporation is a participant with Bartholomew County School Corporation, Brown County School Corporation, Flat Rock-Hawcreek School Corporation, Greensburg Community School Corporation, Seymour Community Schools, and Crothersville Community Schools in a joint venture to operate the Columbus Area Vocational School. The vocational school was created to provide vocational training to participating students. Complete financial statements for the Columbus Area Vocational School can be obtained from the Bartholomew County School Corporation at 703 Washington Street, Columbus IN, 47201.

The School Corporation is a participant with approximately fifty other school corporations in a joint venture to operate the East Central Services and Supply Center with was created to provide equipment service and operating supplies. Complete financial statements for the East Central Services and Supply Center can be obtained from the Fayette County School Corporation at 104 Spartan Drive, Connersville, IN, 47331.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Cash and Investments and the Statement of Cash Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

DECATUR COUNTY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. However, at this time, the School Corporation has not established any enterprise funds.

The School Corporation reports the following major governmental funds:

The general fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The transportation operating fund accounts for financial resources for the transportation of school children to and from school.

The debt service fund accounts for debt from funds borrowed or advanced for the purchase or lease of school buildings, school buses, judgments against the corporation, equipment or capital construction, and interest on emergency and temporary loans.

The capital projects fund accounts for planned construction, repair, replacement or remodeling; and the purchase, lease, upgrade, maintenance, or repair of computer equipment.

The school bus replacement fund is used to account for receipts and disbursements concerning the acquisition and disposal of school buses.

Additionally, the School Corporation reports the following fund types:

The internal service fund accounts for assets set aside as a reserve for employee vision and dental coverage.

The pension trust funds account for the activities of the Retirement/Severance Bond Fund, which accumulates resources for pension benefit payments.

The private-purpose trust fund reports a trust arrangement under which principal and income benefit scholarship recipients.

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund, proprietary fund and fiduciary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The cash and investment basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred. Investment transactions are not presented on the financial statements.

DECATUR COUNTY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

If the School Corporation utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities are provided to people outside the government (enterprise funds) or other departments or agencies primarily within the government (internal service funds). The School Corporation does not have any enterprise funds.

When both restricted and unrestricted resources are available for use, the School Corporation's policy is to use restricted resources first, then unrestricted resources as they are needed.

D. Assets and Cash and Investment Balances

1. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as interest receipts in the year of the sale of the investment.

2. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the School Corporation in June and in December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the School Corporation on or prior to June 30 of the year collected.

3. Compensated Absences

a. Sick Leave

Employees earn sick leave at the rate of 5 to 10 days per year. Unused sick leave may be accumulated to a maximum of 195 days for certified employees. Accumulated sick leave is paid to certified employees upon retirement at a rate of \$65 per day. Noncertified and administrative personnel can accumulate a maximum of 40 days.

b. Vacation Leave

Nonteaching or administrative and noncertified School Corporation employees earn vacation leave at rates from 5 days to 15 days per year based upon the number of years of service. Vacation leave may be accumulated indefinitely. Accumulated vacation leave is paid to employees through cash payments upon termination of employment.

DECATUR COUNTY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

c. Personal Leave

Administrative and noncertified employees (except food service) earn personal leave at the rate of two days per year. Personal leave does not accumulate from year to year.

Certified employees earn personal leave at the rate of 3 days per year. Unused personal leave may be accumulated to a maximum of 5 days. Thereafter, unused days are transferred to accumulated sick leave.

4. Capital Assets

Capital assets arising from cash transactions acquired for use in governmental operations are accounted for as capital outlay disbursements of the fund upon acquisition.

5. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental is not reported as a liability in the basic financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as disbursements.

6. Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in two components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

It is the School Corporation's policy to first use restricted net assets prior to the use of unrestricted net assets when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Financial Statements

Governmental fund equity is classified as fund balance.

E. Receipts and Disbursements

1. Program Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

2. Operating Receipts and Disbursements

Operating receipts and disbursements include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

DECATUR COUNTY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

F. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Cash and Investments and the Statement of Cash Activities, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements

1. Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.
2. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are reported as reimbursements.
3. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

Government-Wide Financial Statements

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Cash and Investments and the Statement of Cash Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Cash and Investments and the Statement of Cash Activities.

II. Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on the cash basis, which is not consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at calendar year end.

Prior to the first required publication, the fiscal officer of the School Corporation submits to the governing board a proposed operating budget for the year commencing the following July 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain taxpayer comments. In September of each year, the governing board, through the passage of a resolution/ordinance, approves the budget for the next year. Copies of the budget resolution/ ordinance and the advertisement for funds for which property taxes are levied or highway use taxes are received are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the fiscal officer of the School Corporation receives approval of the Indiana Department of Local Government Finance.

The School Corporation's management cannot transfer budgeted appropriations between object classifications of a budget without approval of the governing board. The Indiana Department of Local Government Finance must approve any revisions to the appropriations for any fund or any department of the General Fund. The legal level of budgetary control is by object and department within the fund for the General Fund and by object within the fund for all other budgeted funds.

DECATUR COUNTY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Disbursements in Excess of Appropriations

For the years ended June 30, 2005 and 2006, disbursements exceeded budgeted appropriations in the following funds by the amounts below:

Fund	2004	2005
Pre-School Special Education	\$ 72,859	\$ 73,460

C. Cash and Investment Balance Deficits

At June 30, 2005 and 2006, the following funds reported deficits in cash and investments, which are violations of the Uniform Compliance Guidelines as referenced in state statute:

Fund	2005	2006
Pre-School Special Education	\$ 60,640	\$ 63,980

Cash and investment deficits arose primarily from disbursements exceeding receipts due to the underestimate of current requirements; these deficits are to be repaid from future receipts.

III. Detailed Notes on All Funds

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. Balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

2. Investments

Authorization for investment activity is stated in Indiana Code 5-13.

Investment Policies

Indiana Code 5-13-9 authorizes the School Corporation to invest in securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States of America and issued by the United States Treasury, a federal agency, a federal instrumentality, or a federal government sponsored enterprise. Indiana Code also authorizes the unit to invest in securities fully guaranteed and issued by a federal agency, a federal instrumentality or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than two years.

DECATUR COUNTY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Interfund Transfers

Interfund transfers for the years ended June 30, 2005 and 2006, were as follows:

Transfer From	Transfer To	2005	2006
General fund	Capital projects fund	\$ 736,358	\$ 736,358
General fund	Other governmental	68,746	77,750
Capital projects fund	General fund	1,236,358	736,358
Capital projects fund	Transportation fund	-	87,000
Capital projects fund	Other governmental	22,473	25,909
Debt service fund	Other governmental	16,341	15,653
Transportation fund	Other governmental	14,661	17,215
School Bus Replacement	Other governmental	1,976	2,651
Debt service fund	Other governmental	6,425	-
Other governmental	General fund	-	124,428
Other governmental	Debt service	-	6,425
Other governmental	Other governmental	41,681	25,162
		<u>\$ 2,145,019</u>	<u>\$ 1,854,909</u>
Totals		<u>\$ 2,145,019</u>	<u>\$ 1,854,909</u>

The School Corporation typically uses transfers for cash flow purposes according to various statutes.

IV. Other Information

A. Risk Management

The School Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

B. Holding Corporation

The School Corporation has entered into a capital lease with Decatur County School Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation.

DECATUR COUNTY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

C. Pension Plans

1. Agent Multiple-Employer and Single-Employer Defined Benefit Pension Plans

Public Employees' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the School Corporation authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The School Corporation's annual pension cost and related information, as provided by the actuary, is presented in this note.

Information to segregate the assets/liabilities and the actuarial study figures between the School Corporation and the Utilities is not available.

DECATUR COUNTY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Information for the Above Plan

	<u>PERF</u>
Annual required contribution	\$ 116,082
Interest on net pension obligation	(5,053)
Adjustment to annual required contribution	<u>5,758</u>
Annual pension cost	116,787
Contributions made	<u>126,755</u>
Decrease in net pension obligation	(9,968)
Net pension obligation, beginning of year	<u>(69,697)</u>
Net pension obligation, end of year	<u><u>\$ (79,665)</u></u>
Contribution rates:	
School Corporation	7%
Plan members	3%
Actuarial valuation date	07-01-05
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	75% of expected actuarial value plus 25% of market value

Actuarial Assumptions

Investment rate of return	7.25%
Projected future salary increases:	
Total	5%
Attributed to inflation	4%
Attributed to merit/seniority	1%
Cost-of-living adjustments	2%

DECATUR COUNTY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
(Continued)

Three Year Trend Information

	<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
PERF	06-30-03	\$ 125,706	87%	\$ (55,643)
	06-30-04	104,264	113%	(69,697)
	06-30-05	116,787	122%	(79,665)

2. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

Teachers' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Teachers' Retirement Fund (TRF), a defined benefit pension plan. TRF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All employees engaged in teaching or in the supervision of teaching in the public schools of the State of Indiana are eligible to participate in TRF. State statute (IC 5-10.2) governs, through the TRF Board, most requirements of the system and gives the School Corporation authority to contribute to the plan. The TRF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The School Corporation may elect to make the contributions on behalf of the member.

TRF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Teachers' Retirement Fund
150 West Market Street
Indianapolis, IN 46204
Ph. (317) 232-3860

Funding Policy and Annual Pension Costs

The School Corporation contributes the employer's share to TRF for certified employees employed under a federally funded program and all the certified employees hired after July 1, 1995. The School Corporation currently receives partial funding, through the school funding formula, from the State of Indiana for this contribution. The employer's share of contributions for certified personnel who are not employed under a federally funded program and were hired before July 1, 1995, is considered to be an obligation of, and is paid by, the State of Indiana.

Plan members are required to contribute 3% of their salary and the School Corporation is to contribute at an actuarially determined rate. The current rate has been actuarially determined under the entry age normal cost method to be 6.82% of covered wages. The School Corporation's required contributions to the plan for the fiscal years ended June 30, 2006, 2005, and 2004, were \$173,441, \$159,787, and \$144,342, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years.

DECATUR COUNTY COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 875,598	\$ 969,528	\$ (93,930)	90%	\$ 1,629,452	(6%)
07-01-04	947,369	1,174,065	(226,696)	81%	1,674,607	(14%)
07-01-05	1,048,271	1,449,908	(401,637)	72%	1,795,932	(22%)

ADMINISTRATION

DR. ROBERT W. CUPP
Superintendent

DR. DANIEL L. ROACH
Assistant Superintendent

GARY JACKSON
Student Service Specialist

KATHY LAND
Secretary

LOUISE S. SMITH
Treasurer

SANDY PRATT
Deputy Treasurer

AMY HACKER
Bookkeeper

Decatur County Community Schools

TELEPHONE: (812) 663-4595

FAX: (812) 663-4168

1645 W. State Rd. 46
Greensburg, Indiana 47240

BOARD MEMBERS

MARK KOORS
President

CHRIS OWENS
Vice President

AIMEE CUNNINGHAM
Secretary

TIM STONE
TONY MARSH
BARB LECHER
ANNETTE GEIS

DECATUR COUNTY COMMUNITY SCHOOLS SUPPLEMENTARY INFORMATION SCHEDULE OF CAPITAL ASSETS

For the Year Ended June 30, 2006

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land and Buildings	\$ 15,424,162
Improvements other than buildings	1,598,309
Machinery and equipment	<u>5,173,236</u>
Total governmental activities, capital assets not being depreciated	<u>\$ 22,195,707</u>

ADMINISTRATION

DR. ROBERT W. CUPP
Superintendent

DR. DANIEL L. ROACH
Assistant Superintendent

GARY JACKSON
Student Service Specialist

KATHY LAND
Secretary

LOUISE S. SMITH
Treasurer

SANDY PRATT
Deputy Treasurer

AMY HACKER
Bookkeeper

Decatur County Community Schools

TELEPHONE: (812) 663-4595

FAX: (812) 663-4168

1645 W. State Rd. 46
Greensburg, Indiana 47240

BOARD MEMBERS

MARK KOORS
President

CHRIS OWENS
Vice President

AIMEE CUNNINGHAM
Secretary

TIM STONE
TONY MARSH
BARB LECHER
ANNETTE GEIS

DECATUR COUNTY COMMUNITY SCHOOLS
SUPPLEMENTARY INFORMATION
SCHEDULE OF LONG-TERM DEBT
For the Year Ended June 30, 2006

The School Corporation has entered into the following debt agreements:

Description of Asset	Ending Balance	Due Within One Year
Governmental Activities.		
Capital leases:		
School Buildings and Renovations	\$ 5,400,000	\$ 445,000
Notes and loans payable		
Common School Fund Loan	804,256	84,035
DOC Public Facility Energy Efficiency Loan	60,000	20,000
Bonds payable:		
General obligation bonds:		
Pension and Severance Bonds	2,780,000	100,000
Total governmental activities long-term debt	\$ 9,044,256	\$ 649,035

DECATUR COUNTY COMMUNITY SCHOOLS
AUDIT RESULTS AND COMMENTS

OVERDRAWN CASH BALANCES

The cash balance of the Special Education Pre-School Fund was overdrawn in 2004, 2005, and 2006.

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

HONORS DIPLOMAS - INCORRECT REPORTING TO THE STATE

The information presented for audit indicates the number of honors diplomas reported on Form Number 30A, Report of Average Daily Membership (ADM) for State Support, were incorrect for the school years ending June 30, 2005 and 2006.

The difference between the count reported on the ADM and the verified figures are shown below:

<u>Graduation Year</u>	<u>Count as Reported on Form Number 30A</u>	<u>Actual Enrollment Figures</u>	<u>Difference</u>
2004	40	39	1
2005	38	39	(1)

School Officials should contact the Indiana Department of Education, Division of School Finance, to determine possible steps to be taken to correct any overpayment/underpayment applicable to the School Corporation because of incorrect reporting. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 8)

APPROPRIATIONS

The records presented for audit indicated the following expenditures in excess of budgeted appropriations:

<u>Fund</u>	<u>Year</u>	<u>Excess Amount Expended</u>
Pre-School Special Education	2004	\$ 72,859
Pre-School Special Education	2005	73,229

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

DEPOSITS - (Applies to North Decatur Elementary School)

Receipts were not always deposited within a reasonable time. A similar comment appeared in the prior audit report.

Indiana Code 20-41-1-9 states in part: ". . . receipts shall be deposited without unreasonable delay."

(This page intentionally left blank.)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE DECATUR COUNTY COMMUNITY
SCHOOLS, DECATUR COUNTY, INDIANA

Compliance

We have audited the compliance of the Decatur County Community Schools (School Corporation) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the years ended June 30, 2005 and 2006. The School Corporation's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School Corporation's management. Our responsibility is to express an opinion on the School Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the School Corporation's compliance with those requirements.

In our opinion, the School Corporation complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the years ended June 30, 2005 and 2006.

Internal Control Over Compliance

The management of the School Corporation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School Corporation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the School Corporation's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

January 23, 2007

DECATUR COUNTY COMMUNITY SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended June 30, 2005 and 2006

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-05	Total Federal Awards Expended 06-30-06
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Pass-Through Indiana Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553		\$ 33,002	\$ 38,796
National School Lunch Program	10.555		204,157	235,128
Total for cluster			237,159	273,924
Team Nutrition Grants	10.574		-	500
Total for federal grantor agency			237,159	274,424
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through Indiana Department of Education				
Title I Grants to Local Education Agencies	84.010			
FY 04-05			283,389	-
FY 05-06			-	239,573
Total for program			283,389	239,573
Safe and Drug Free Schools and Communities	84.186			
FY 01-02		Project 01-204	50	-
FY 02-03		Project 02-068	8,467	-
FY 03-04		Project 03-175	2,416	-
FY 04-05		Project 04-161	1,831	6,170
Total for program			12,764	6,170
Innovative Education Program Strategies	84.298			
FY 02-03		Project 02-183	5,716	-
FY 03-04		Project 03-258	13,052	-
FY 04-05		Project 04-146	6,666	3,442
Total for program			25,434	3,442
Enhancing Education Through Technology	84.318		10,501	6,841
Improving Teacher Quality	84.367			
FY 03-04		Project 03-107	23,027	-
FY 04-05		Project 04-036	87,496	8,025
FY 05-06		Project 05-013	-	79,534
Total for program			110,523	87,559
Pass-Through Indiana Department of Child Services				
Special Education - Grants for Infants and Families with Disabilities	84.181			
First Steps Early Intervention Development and Implementation		16-03-83-0106	1,405	-
Total for federal grantor agency			444,016	343,585
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
Pass-Through Indiana Department of Child Services				
Family Preservation and Support Services	93.556	16-03-64-0106-02	1,001	-
Total federal awards expended			\$ 682,176	\$ 618,009

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

DECATUR COUNTY COMMUNITY SCHOOLS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Decatur County Community Schools (School Corporation) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with the Indiana Code (IC 5-11-1 et seq.), audits of School Corporations shall be conducted biennially. Such audits shall include both years within the biennial period.

II. Noncash Assistance

The School Corporation expended the following amount of noncash assistance for the years ending June 30, 2005 and 2006. This noncash assistance is also included in the federal expenditures presented in the schedule.

	Federal CFDA Number	For the Year Ended June 30, 2005	For the Year Ended June 30, 2006
Child Nutrition Cluster			
Food Commodities			
National School Lunch Program	10.555	\$ 29,250	\$ 30,233
School Breakfast Program	10.553	4,740	4,936

DECATUR COUNTY COMMUNITY SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Noncompliance material to financial statements noted?	no
---	----

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	no
--	----

Identification of Major Programs:

Name of Federal Program or Cluster

Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?	yes
--	-----

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

DECATUR COUNTY COMMUNITY SCHOOLS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

DECATUR COUNTY COMMUNITY SCHOOLS
EXIT CONFERENCE

The contents of this report were discussed on January 23, 2007, with Robert Cupp, Superintendent of Schools; Mark A. Koors, President of the School Board; and Louise S. Smith, Treasurer. The official response has been made a part of this report and may be found on pages 41 and 42.

ADMINISTRATION

DR. ROBERT W. CUPP
Superintendent

DR. DANIEL L. ROACH
Assistant Superintendent

GARY JACKSON
Student Service Specialist

KATHY LAND
Secretary

LOUISE S. SMITH
Business Manager

SANDY PRATT
Deputy Treasurer

AMY HACKER
Bookkeeper

Decatur County Community Schools

TELEPHONE: (812) 663-4595

FAX: (812) 663-4168

1645 W. State Rd. 46

Greensburg, Indiana 47240

January 29, 2007

BOARD MEMBERS

MARK KOORS
President

CHRIS OWENS
Vice President

BARB LECHER
Secretary

AIMEE CUNNINGHAM
ANNETTE GEIS
JILL KOEHNE
MARK YOUNG

State Board of Accounts
Exit Conference
School Corporation Response
Audit Period 7/1/2004 to 6/30/2006

The school district would like to respond to the items sited during the exit conference on January 23, 2007 as listed below.

1) Overdrawn Cash Balances

A report comment was given addressing an overdrawn cash balance in our preschool special education fund. This fund has run a negative balance for the last 12 years. Due to the fact that the program is not fully funded by the state legislature, it is necessary for the school corporation to run the negative balance. The school corporation is aware that this program fund balance should show a positive balance, but given the mandate that preschool special education be offered and the inadequate funding mechanism provided for it, we have no choice but to run it in the red. As of 12/31/2006, the school corporation paid off the deficit in the preschool special education fund.

2) Appropriations

This audit comment addressed expenditures in excess of budgeted appropriations. The school corporation is making every effort to monitor spending from the preschool special education fund. The over expenditure of appropriation is due to the lack of an approved appropriation from the state level. We have established spending limits within preschool special education categories which are maintained as proposed in our budgets and approved by our school board. The lack of state approved appropriations in our preschool special education budget has existed since 1995. The school corporation finds itself in a position, as outlined above, of operating a program which is required by state law while funding it through inadequate levels provided by the state legislature.

3) ECA Deposits (Applies to North Decatur Elementary School)

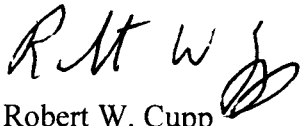
An audit comment was made stating that ECA deposits are not always made within a reasonable time. ECA deposits will be made in a timely manner from this point forward. All applicable staff members have been reminded of the importance of making ECA deposits in a timely manner.

4) Academic Honors Reporting

This audit comment states that the number of students graduating with Academic Honors was incorrectly reported. We have done further research and determined the correct number of Academic Honors Diplomas issued for 2004 and 2005. We will review our reporting process with the necessary personnel to insure that accurate numbers are reported in the future. Also, we will contact the Dept. of Education, Division of School Finance to determine if funds were overpaid or underpaid for 2004 and 2005.

The school corporation requests that this response be included in the report by the State Board of Accounts. We would also like to thank the field examiners for the professional manner in which the audit was conducted.

Sincerely,

A handwritten signature in black ink, appearing to read 'R W Cupp', followed by a stylized flourish or initial.

Robert W. Cupp
Superintendent